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BUSINESS

Was America's spending spree worth it?

Economists are comparing inflation, jobs and growth against other countries

BY JEANNA SMIALEK AND BEN CASSELMAN

The United States spent more aggressively to protect its economy from the pandemic than many global peers, a strategy that has helped to foment more rapid inflation — but also a faster economic rebound and brisk job gains.

Now, though, America is grappling with what many economists see as an unsustainable worker shortage that threatens to keep inflation high and may necessitate a firm response by the Federal Reserve. Yet U.S. employment has not recovered as fully as in Europe and some other advanced economies. That reality is prodding some economists to ask: Was America's spending spree worth it?

As the Fed raises interest rates and economists increasingly warn that it may take at least a mild recession to bring inflation to heel, risks are mounting that America's ambitious spending will end up with a checkered legacy. Rapid growth and a strong labor market rebound have been big wins, and economists across the ideological spectrum agree that some amount of spending was necessary to avoid a repeat of the painfully slow recovery that followed the previous recession. But the benefits of that faster recovery could be diminished as rising prices eat away at paychecks — and even more so if high inflation prods the central bank to set policy in a way that pushes up unemployment down the road.

"I'm worried that we traded a temporary growth gain for permanently higher inflation," said Jason Furman, an economist at Harvard University and a former economic official in the Obama administration. His concern, he said, is that "inflation could stay higher, or the Fed could control it by lowering output in the future."

The Biden administration has repeatedly argued that, to the extent the United States is seeing more inflation, the policy response to the pandemic also created a stronger economy.

"We got a lot more growth, we got less child poverty, we got better household balance sheets, we have the strongest labor market by some metrics I've ever seen," Jared Bernstein, an economic adviser to President Biden, said in an interview. "Were all of those accomplishments accompanied by heat on the price side? Yes, but some degree of that heat showed up in every advanced economy, and we wouldn't trade that back for the historic recovery we helped to generate."

Inflation has picked up around the world, but price increases have been quicker in America than in many other wealthy nations.

Consumer prices were up 9.8 percent in March from a year earlier, according to a measure of inflation that strips out owner-occupied housing to make it comparable across countries. That was faster than in Germany, where prices rose 7.6 percent in the same period; Britain, where they rose 7 percent; and other European countries. Other measures similarly show U.S. inflation outpacing that of its global peers.

GABBY JONES FOR THE NEW YORK TIMES

COLE BURSTON/REUTERS

Left, a gas station in New York. The benefits of rapid economic growth in the United States could be diminished if rising prices eat away at paychecks. U.S. employment, meanwhile, has not recovered as fully as in Europe and some other advanced economies, including Japan, below left. In Canada, above, and Australia, employment rates are higher than before the pandemic. "I'm worried that we traded a temporary growth gain for permanently higher inflation," said Jason Furman, an economist at Harvard University.

EUGENE HOSHIKO/ASSOCIATED PRESS

The comparatively large jump in prices in America is owed at least partly to the nation's ambitious spending. Research from the Federal Reserve Bank of San Francisco attributed about half the nation's 2021 annual price increase to the government's spending response. The researchers estimated the number, which is imprecise, by comparing America's inflation outcome with what happened in countries that spent less.

"The size of the package was very large compared to any other country," said Òscar Jordà, a co-author of the study.

The Trump and Biden administrations spent about $5 trillion on pandemic relief in 2020 and 2021 — far more as a share of the nation's economy than what other advanced economies spent, based on a database compiled by the International Monetary Fund. Much of that money went directly to households in the form of stimulus checks, expanded unemployment insurance and tax credits for parents.

Payments to households helped to fuel rapid consumer demand and quick economic growth — progress that has continued into 2022. A global economic outlook released by the International Monetary Fund last week showed that America's economy is expected to expand by 3.7 percent this year, faster than the roughly 2 percent trend that prevailed before the pandemic and the 3.3 percent average expected across advanced economies this year.

Unemployment in the United States jumped much higher at the outset of the pandemic in part because America's policies did less to discourage layoffs than those in Europe. While many European governments paid companies to keep workers on their payrolls, the U.S. focused more on providing money directly to those who lost their jobs.

Joblessness fell fast in the United States, too, but that was also true elsewhere. Many European countries, Canada and Australia are now back to or below their prepandemic unemployment rates, data reported by the Organization for Economic Cooperation and Development showed.

And when it comes to the share of people who are actually working, the United States is lagging behind some of its global peers. The nation's employment rate is hovering around 71.4 percent, still down slightly from nearly 71.8 percent before the pandemic.

By comparison, the eurozone countries, Canada and Australia have higher employment rates than before the pandemic, and Japan's employment rate has fully recovered.

Europe's more complete employment recovery may partly reflect its different regulations and different approach to supporting workers during the pandemic, said Nick Bennenbroek, an international economist at Wells Fargo. European aid programs effectively paid companies to keep people on the payroll even when they couldn't go to work, while the United States supported workers directly through the unemployment insurance system.

That relatively subtle difference had a major consequence: Because fewer Europeans were separated from employers, many flowed right back into their old jobs as the economy reopened. Meanwhile, pandemic layoffs touched off an era of soul-searching and job shuffling in the United States.

"You didn't have as much motivation to reconsider your assessment of your work-life situation," Mr. Bennenbroek said. "What we initially saw in the U.S. was much more disruptive."

Disruption has had its upsides. America now has a record 1.8 jobs open for every unemployed worker, which has in some ways given employees more power to demand more flexible schedules, better benefits and higher pay.

Wages in the United States are rising at the fastest pace in four decades, while pay growth in Europe has been more subdued. Mr. Bernstein, the White House adviser, called America's situation now "the strongest job market in generations."

But the red-hot labor market carries its own risks. For one thing, wage growth is not keeping up with rapid inflation for many people, leaving some households behind even as their paychecks get bigger. And the ratcheting up in wages could prompt companies to try to cover their costs by raising prices even more.

Higher wages can be a "feeder for inflation," Mary C. Daly, president of the Federal Reserve Bank of San Francisco, told reporters last week.

"It's unsustainably hot," Jerome H. Powell, the Fed chair, said of the job market during an event last week. "It's our job to get it to a better place where supply and demand are closer together."

America's heady pay gains could mean that the Fed has to react more aggressively to slow down the economy. The central bank is trying to tame inflation by lifting interest rates in a bid to make money more expensive to borrow, which can slow spending and cool off economic conditions.

But if the Fed has to raise rates to high levels to restore economic calm, it could touch off a recession that pushes the unemployment rate higher. Mr. Powell and his colleagues have said they hope they can manage to land the economy softly — but they acknowledge that a downturn is a risk.

Ultimately, the legacy of America's big relief programs may depend on what happens in the months ahead. If inflation moderates without painful action by the Fed — something some economists still believe is at least possible if the pandemic fades, supply chains normalize and workers return to the job market — then the brief period of rapid price gains may end up looking like a relatively small price to pay for a strong economic recovery that in some ways outstripped those staged abroad.

But if central bankers decide they need to take more drastic steps, resulting in a recession, it could reverse some of the recent progress.

The war in Ukraine could complicate attempts to judge America's performance against its global peers. Economic growth in Europe had been accelerating late last year, but the Russian invasion — and the spike in fuel costs that came with it — is threatening to derail the recovery there. The United States could also face consequences but is comparatively insulated from the Russian and Ukrainian economies.

"Europe was doing well and I was very optimistic prior to the war," said Gian Maria Milesi-Ferretti, an economist at the Brookings Institution who has studied the recoveries in the United States and Europe. "But now the war shock is completely asymmetric between the U.S. and Europe."

Central banks around the world are responding as prices climb rapidly. Rate increases are underway in Britain, and European policymakers have become more wary as inflation has jumped higher. That could mean that those economies, having accelerated through a recovery together, now slow in tandem.

"For a while, inflation started to move up and central banks remained very tranquil about that," said Carlos Viana de Carvalho, an economist at the Brazilian asset manager Kapitalo Investimentos and a former Fed economist. He added: "The attitude has changed."

A nuclear power revival could aid Europe, but not quickly

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while Germany and other like-minded countries oppose it, citing the dangers of radioactive waste. A recent European Commission plan for reducing dependence on Russia pointedly left nuclear power off a list of energy sources to be considered.

The long delays and cost overruns that have dogged the huge Flamanville-3 project, a state of the art pressurized-water reactor designed to produce 1,600 megawatts of energy, are a sign of wider technical, logistical and cost challenges facing an expansion.

A quarter of all electricity in the European Union comes from nuclear power produced in a dozen countries from aging plants that were mostly built in the 1980s. France, with 56 reactors, produces more than half the total.

Plans for up to 13 new-generation nuclear reactors in France, using a different design from the one in Flamanville, wouldn't be ready until at least 2035 — too late to make a difference in the current energy crunch.

Across the channel, Britain recently announced ambitions for as many as eight new nuclear plants, but the reality is more sobering. Five of the six existing British reactors are expected to be retired within a decade because of age, while only one new nuclear station, a long-delayed, French-led giant costing 20 billion pounds, or $25 billion, in southwest England, is under construction. The first unit of the plant is expected to start generating electricity in 2026.

Others being considered in Eastern Europe aren't expected to come online before 2030.

"Nuclear is going to take so long" because the projects require at least 10 years for completion, said Jonathan Stern, a senior research fellow at the independent Oxford Institute for Energy Studies in Britain.

"The big problem is getting off Russian gas, and that problem is now — not in a decade, when maybe we've built another generation of nuclear reactors," he added.

Advocates say nuclear power can be a solution if the political will is there.

Belgium's government, in agreement with the country's Green party, reversed a decision to phase out nuclear energy by 2025 and extended the life of two reactors for an additional decade as Russia intensified its assault on Ukraine last month. The energy will help Belgium avoid relying on Russian natural gas as it develops renewable power sources, including wind turbines and solar fields, to meet European climate goals by 2035.

"The invasion of Ukraine was a life changer," Belgium's energy minister, Tinne Van der Straeten, said last week, explaining the government's policy reversal. "We wanted to reduce our imports from Russia."

But in Germany, which is more dependent than any other European country on Russian gas and coal, the idea of using nuclear power to bridge an energy crunch appears to be going nowhere.

Germany is scheduled to close its last three nuclear plants by the end of the year, the final chapter in a program that lawmakers approved to phase out the country's fleet of 17 reactors after the nuclear disaster in Fukushima, Japan, in 2011.

Two of Germany's largest energy companies said they were open to postponing the shutdown to help ease the nation's reliance on Russia. But the Green party, part of Berlin's governing coalition, ruled out continuing to operate them — let alone reopening three nuclear stations that closed in December.

"We decided for reasons that I think are very good and right that we want to phase them out," Chancellor Olaf Scholz told Parliament this month, adding that the idea of delaying Germany's exit from nuclear power was "not a good plan."

Even in countries that see nuclear power as a valuable option, a host of hurdles lie in the way. "It is not going to happen overnight," said Mark Hibbs, a nuclear expert in Germany for the Carnegie Endowment for International Peace, a research organization.

"The big problem is getting off Russian gas, and that problem is now — not in a decade" it will take to build more reactors.

MARLENE AWAAD/BLOOMBERG

A nuclear reactor under construction in Flamanville, France, in 2016. Completion is a decade behind schedule. A nuclear energy revival in Europe is fraught with problems.

President Emmanuel Macron's plans for a nuclear power renaissance in France envision a wave of large and small new-generation atomic reactors at an estimated starting price of €50 billion — a staggering cost that other European countries can't or won't take on. Buildup won't be fast, he acknowledged, in part because the industry also needs to train a new generation of nuclear power engineers.

"Most governments push and push, and even if they start building it takes a long time," said Mr. Stern of the Oxford Institute for Energy Studies. "All these other technologies are advancing rapidly and they're all getting cheaper, while nuclear isn't advancing and it's getting more expensive."

In the meantime, many of France's aging reactors, built to forge energy independence after the 1970s oil crisis, have been idled for safety inspections, making it difficult for French nuclear power to help bridge a Russian energy squeeze, said Anne-Sophie Corbeau of the Center on Global Energy Policy at Columbia University in New York.

"Nuclear production will decrease in France this year unless you find a magic solution, but there is no magic solution," she said.

Still, Moscow's aggression may help reverse what had been an arc of the industry's gradual decline.

Recently there has been a string of upbeat declarations. Besides Britain's announcement this month to expand its nuclear capacity, the Netherlands, with one reactor, plans to build two more to supplement solar, wind and geothermal energy. And in Eastern Europe, a number of countries in Russia's shadow had been making plans to build nuclear reactors — a move that advocates say appears prescient in the wake of Russia's invasion of Ukraine.

NuScale Power, a company in Oregon selling a new reactor design that it claims will be less costly and quicker to build because key components will be assembled in factories, has signed preliminary deals in Romania and Poland.

Russia's invasion has reinforced customers' "desire to consider nuclear being part of the overall energy mix for their portfolios," said Tom Mundy, the company's chief commercial officer.

Nuclearelectrica, a state-controlled Romanian power company, is pushing ahead with both a NuScale plant and two Canadian reactors, to accompany a pair of nuclear facilities that generate about 20 percent of the country's electricity, said Cosmin Ghita, the chief executive.

"The Ukraine crisis has definitely shown us the need to bolster energy security," Mr. Ghita said. "We are gaining more traction for our projects."

Meike Becker, a utilities analyst at Bernstein, a research firm, said that over the long term, Russia's war was likely to "help the European idea" of being more energy independent.

"That is something that nuclear can deliver," she added.

Liz Alderman reported from Paris, and Stanley Reed from London.

PUBLIC NOTICE
To the Taliban and Da Afghanistan Bank

In the United States District Court for the Southern District of New York, Case Nos. 03-MD-1570-GBD-SN, 03-CV-9848-GBD-SN, and 20-MC-740-GBD-SN, Judgment Creditors Fiona Havlish et al. ("the Havlish Creditors") and John Does 1 through 7 ("the Doe Creditors") have each filed a motion seeking a turnover of assets of Da Afghanistan Bank (DAB) held in the Federal Reserve Bank of New York (FRBNY). The Havlish Creditors seek these assets to satisfy the final judgment entered by the Court on October 16, 2012 against the Taliban, among others, in connection with the terrorist attacks of September 11, 2001. The Doe Creditors seek these assets to satisfy a final judgment entered in the Northern District of Texas on November 5, 2020 against the Taliban, among others, in connection with a terrorist attack in Kabul, Afghanistan on January 4, 2016. Pursuant to Federal Rule of Civil Procedure 69(a), N.Y. C.P.L.R. Sections 5225(b) and 5227, and Section 201(a) of the Terrorism Risk Insurance Act of 2002, the Havlish Creditors' and the Doe Creditors' motions seek to compel FRBNY to turn over the blocked assets of DAB in amount sufficient to satisfy the outstanding amounts of their awards of compensatory damages as of the date the motions were filed, namely $2,086,386,669 and $138,418,741, respectively.

This is a notice that the motions have been filed. The motion papers are available in both English and Pashto at the following website: **www.DABturnover.com.**